



Chartered  
Institute of  
Housing

# What you need to know about the draft guidance for SHDF Wave 3

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## Introduction

The Social Housing Decarbonisation Fund (SHDF) is a government energy efficiency scheme that aims to upgrade social homes that currently have an Energy Performance Certificate (EPC) rating below Band C up to that standard. The government department responsible for the scheme is the Department for Energy Security and Net Zero (DESNZ).

In December 2023, government [announced](#) the allocation of £1.25 billion to the Social Housing Decarbonisation Fund to support up to 140,000 social homes to be insulated or retrofitted. This followed the delivery of the first two waves of the programme, which were preceded by a demonstrator fund.

In May 2024, government published the [draft guidance](#) for Wave 3 of the SHDF. The guidance has purposefully been published early to allow housing providers time to understand what support is available and seek appropriate clarifications.

This guide includes key information from the draft guidance, specifically:

- Proposed application and delivery timetables
- Eligibility
- Available funding
- Eligible properties and measures
- Application routes
- Key changes from previous SHDF waves
- The possible impact of a general election on the programme
- What you should do now.

CIH will update this guide when more information becomes available.

### Proposed application and delivery timetables

DESNZ have published indicative timings for applications to Wave 3, the notification of successful bidders, and the delivery timeline. These are:

- **May 2024** – Draft guidance published
- **3 June 2024** – Clarification period ends
- **Summer 2024** – Application launch, and publication of final documents and guidance.

The close of the application window and the notification of successful projects is to be announced.

The delivery window for Wave 3 will run from the signing of legal documentation with individual projects to 30 September 2028. Any grant funding received by successful Wave 3 projects will need to be spent by 31 March 2028, with the final six months of delivery funded by match funding.

## Eligibility

Local authorities, combined authorities, registered providers of social housing and registered charities that own social housing can apply directly, or as part of a consortium, for funding. Arms-length management organisations (ALMOs) that are not registered providers, can apply as part of a consortium led by an organisation that is eligible to lead an application.

In order to be eligible for the Strategic Partnerships application route (see 'Application routes' on page four), the lead applicant must have delivered on the SHDF Demonstrator, Wave 1, Wave 2.1 or Wave 2.2 (either as the lead grant recipient or as a consortium member). As in previous waves, DESNZ will require evidence on the viability of consortiums as part of consortium bids.



## Available funding

DESNZ have stated that approximately £1.2 billion of funding is available, which includes funding for devolution trailblazer areas.

Lead grant recipients can access funding from 1 April 2025. As in previous SHDF waves, **there is a requirement that 50 per cent of total eligible costs are provided by the project or consortium.** Administration and ancillary costs are also included, but must not comprise more than 15 per cent of total spend by the end of the project.

There is a cost cap for measures, defined as the maximum grant funding permitted for capital costs for retrofit works, exclusive of administration and ancillary costs. The cost cap is £7,500, and applicants are expected to provide an equal amount of match funding as grant funding for each home.

Funding can be blended with money from other energy efficiency schemes to deliver a range of measures to individual homes, providing that more than one source of funding does not pay for the same measure.

## Eligible properties and measures

All existing social housing, as defined by the Housing and Regeneration Act 2008 (sections 68-70), below EPC Band C, regardless of archetype, is eligible. There are some exceptions to the EPC Band C requirement (see 'Other key changes from previous waves' on page five).

As in previous SHDF waves, **eligible measures are defined as any energy efficiency and heating measure compatible with the Standard Assessment Procedure (SAP)** that will improve the energy performance (and therefore EPC rating) of social homes. This excludes heating systems which are solely fuelled by fossil fuels. It includes SAP-eligible technologies that enable Smart Meter Enabled Thermal Efficiency Ratings (SMETER), such as smart thermostats.

Projects are expected to take a 'least regrets' approach, minimising the possibility of any measures being installed having to be replaced in the future to decarbonise a given home.

**DESNZ have also included a new mechanism for funding the installation of low-carbon heating.** Housing providers will be able to access £20,000 per home grant offer, with no match funding requirement, to install low-carbon heating in homes on the gas grid. It will be available for up to 10 per cent of homes in the application. The measures included in this mechanism are air source heat pumps, ground source heat pumps, shared group loops and heat networks.

As with all low-carbon heating technologies funded through SHDF, applicants will be expected to take air quality, affordability and sustainability into account. Specifically:

- Bills must not increase as a net result of all retrofit works to the home, relative to what they would have otherwise been
- Post retrofit, homes must comply with SHDF performance outcomes.





# Application routes

There are two distinct application routes for Wave 3.

## Strategic partnerships

DESNZ will appoint a small number of applicants as strategic partners, who will be given flexibility to deliver thousands of upgrades. Applicants must have a successful track record of delivering energy efficiency works and have received funding through previous SHDF waves. Strategic partners will not be required to provide detail on specific homes and measures until works have been carried out.

Strategic partners will be expected to demonstrate an ability to meet some or all of DESNZ's strategic priorities:

- **Delivering at a significant scale**, e.g. approaching or exceeding 4,000 homes, and harnessing economies of scale to deliver better value for money.
- **Successfully install low-carbon heating** in a significant number of homes, including sharing experiences and good practice of doing so.
- **Preparing for future scale-up of retrofit.** This will include playing a leadership role in the sector to support it to, for example, deliver on fuel poverty and net zero priorities; stimulate the supply chain; and undertake additional monitoring and evaluation.
- **Developing innovation**, e.g. in the areas of mixed-tenure retrofit or area-based approaches to retrofit.

## Challenge fund

This route will operate in a near-identical way to previous waves of the SHDF. However, there are two key changes:

- All applications that meet minimum requirements will be awarded funding, although this may not be the full amount requested if the scheme is oversubscribed.
- The design of the route will reflect the phased approach taken by some housing providers, with information on the homes included within a phase only required once delivery is ready to commence.



## Other key changes from previous waves

There are some significant changes to Wave 3 of the SHDF, compared to previous waves. These are:

- **Eligibility criteria around mixed-tenure blocks has been relaxed.** Previously, projects involving mixed-tenure blocks had to be 50 per cent social homes to be eligible. This has been reduced to 30 per cent. Homes within blocks that are not social housing will also no longer be required to make a financial contribution to the project.
- **For smaller housing providers (<1000 units), there is no longer a minimum project size requirement.** Previously, the only option for very small housing providers looking to access funding was to join a consortium. While this is still being encouraged, very small providers looking to develop their own projects will be able to propose projects of less than 100 homes, as long as they can justify their approach.
- **Changes to the calculation of cost caps.** There is a new single cost cap for energy efficiency measures which is consistent across all homes and does not vary by starting EPC band or wall type as it did in Wave 2. The new Wave 3 cost cap is £7,500 of grant funding per home, which can also be averaged across homes in an application (including across different consortium members).
- **Inclusion of EPC Band C+ homes / revisiting homes.** In previous waves of SHDF, homes already at or above EPC Band C could only be included on an infill basis. For Wave 3, homes already at or above EPC Band C can also be included in applications where low carbon heating measures are being installed. Applications are limited to 10 per cent of homes starting at or above EPC Band C. Homes previously treated in SHDF Wave 1 or the SHDF Demonstrator are eligible to be treated in SHDF Wave 3 as long as they comply with SHDF Wave 3 eligibility requirements and only where installing low carbon heating measures.
- **Metrics and KPIs have been updated,** with bespoke measures for each application route.

## Other key points

As in previous waves of SHDF, applicants and projects will be expected to:

- Follow requirements around installation standards, i.e. ensuring that installers are TrustMark registered or equivalent; engaging with TrustMark and lodging measures with their data warehouse; and ensuring that projects adhere to PAS2035.
- Improve social homes to at least EPC Band C, unless they cannot reasonably achieve this within cost caps.
- Have a minimum application size of 100 homes, apart from applications from smaller housing providers (see left).
- Demonstrate how they will meet the diverse needs of tenants and maximise the benefits of works to tenants.
- Comply with DESNZ evaluation activities.

DESNZ have also noted that:

- They are aware that any future changes to EPCs could unintentionally affect project delivery. They have therefore stated that an update to SHDF Wave 3 guidance may be required to provide clarity to projects once government has made a final decision on the direction of EPC reform.
- Mayoral Combined Authorities (MCAs) and their constituent local authorities will not be permitted to bid into competitive programmes for which the MCAs have already received an allocation through their settlements. DESNZ state that housing association projects with homes only in a specific MCA area should apply to their respective MCA. DESNZ will produce guidance for housing association projects which have stock in both the MCA area and outside of it.





# The general election

DESNZ has stated that it reserves the right to cancel the launch of SHDF Wave 3 at any stage prior to grant funding being awarded. CIH is also aware that some members have expressed uncertainty that Wave 3 will continue as planned if there is a change of government following a general election.

CIH understands that Labour's current commitment is to spend approximately £2.6 billion per year on energy efficiency and low-carbon heating upgrades in its first term, compared to a commitment of approximately £0.9 billion per year by the Conservatives. However, our understanding is also that Labour has not yet announced or indicated its intentions for the continuation of the SHDF.

Despite this, **our recommendation is that members should engage with SHDF Wave 3 and assume that it will not be significantly affected by any change of government.** CIH and partners across the energy and housing sectors continue to engage with government, and CIH believes that any new government should immediately confirm that the scheme will continue as planned in the short- and medium-term to give the sector and its supply chain confidence to progress applications and delivery plans.

We will continue to update members, via this guide and other channels, as more information becomes available.

# What you should do now

If you have any questions or clarifications about the draft guidance and scheme design, DESNZ have set up an email address for queries: [shdfwave3enquiries@energysecurity.gov.uk](mailto:shdfwave3enquiries@energysecurity.gov.uk). The clarification period will end on 3 June 2024.

Free advice on developing projects for Wave 3 is provided by the Retrofit Information, Support and Expertise (RISE) service (formerly the Social Housing Retrofit Accelerator and the Home Upgrade Hub). Please visit <https://riseretofit.org.uk> or email [rise@turntown.co.uk](mailto:rise@turntown.co.uk) for more information. The first step to receiving support is a mandatory self-assessment, which will enable RISE to tailor its support to you.

Several organisations and consultants also offer expert advice and support in developing SHDF applications. Please contact us at [policyandpractice@cih.org](mailto:policyandpractice@cih.org) if you would like to be signposted.

